NORTH DAKOTA TEACHERS' FUND FOR RETIREMENT
MINUTES OF THE
NOVEMBER 16, 2006, BOARD MEETING

BOARD MEMBERS PRESENT:	Mark Sanford, President Clarence Corneil, Trustee Kim Franz, Trustee Mike Gessner, Trustee Lowell Latimer, Trustee Wayne Sanstead, State Superintendent Kelly Schmidt, State Treasurer
STAFF PRESENT:	Steve Cochrane, Executive Director Fay Kopp, Deputy Executive Director Paula Brown, Retirement Programs Specialist Connie Flanagan, Fiscal & Investment Officer Bonnie Heit, Office Manager Les Mason, Internal Audit Supervisor Shelly Schumacher, Retirement Program Supvr. Dottie Thorsen, Internal Auditor Denise Weeks, Retirement Programs Specialist
OTHERS PRESENT:	Chris Conradi, Gabriel, Roeder & Smith Bill Kalanek, NDRTA Aaron Webb, Attorney General's Office

CALL TO ORDER:

Dr. Mark Sanford, President of the Teachers' Fund for Retirement (TFFR) Board of Trustees, called the meeting to order at 1:00 p.m. on Thursday, November 16, 2006, at Job Service ND, 1601 E Century, Bismarck, ND.

THE FOLLOWING MEMBERS WERE PRESENT REPRESENTING A QUORUM: PRESIDENT SANFORD, MR. GESSNER, DR. LATIMER, MR. CORNEIL, MRS. FRANZ, TREASURER SCHMIDT, AND DR. SANSTEAD.

MINUTES:

The Board considered the minutes of the September 21, 2006, board meeting.

DR. LATIMER MOVED AND MR. CORNEIL SECONDED TO APPROVE THE MINUTES OF THE SEPTEMBER 21, 2006, BOARD MEETING.

AYES: DR. LATIMER, MRS. FRANZ, PRESIDENT SANFORD, TREASURER SCHMIDT, MR. GESSNER, MR. CORNEIL, AND DR. SANSTEAD.
NAYS: NONE
MOTION CARRIED

2006 TFFR ACTUARIAL VALUATION REPORT AND FUNDING ISSUES:

Mr. Chris Conradi, Gabriel, Roeder, Smith, and Company (GRS), presented TFFR's Actuarial Valuation as of July 1, 2006.

Mr. Conradi stated the number of active members decreased by 2.2% from 9,801 to 9,585. However, over the last 10 years, active membership has decreased an average of 0.2% per year. Payroll for active members increased 0.9%, from $386.6 million to $390.1 million, with payroll increasing an average of 3.3% per year over the last 10 years. Average pay for active members increased 3.2%, from $39,447 to $40,703. Average age of active members is 44.8, compared to 44.9 last year and to 42.9 ten years ago. The average years of service is 14.6, compared to 14.7 last year and to 13.6 ten years ago. There are also 1,409 inactive, vested members and 143 inactive, non-vested members. The number of retirees increased by 5.5%, from 5,586 to 5,893, with an average annual retiree benefit of $16,595. Presently there are 1.6 active members for each retiree, a decline from 2.2 active members per retiree ten years ago. Mr. Conradi indicated some of the changes in membership statistics may have been affected by changes in the procedures used for gathering data. In particular, as a result of the implementation of the new CPAS computer system, July retirees now appear in retired data whereas in previous years, the retiree file was based on members paid in June. Therefore, active membership figures are somewhat lower, and retired membership figures are higher.

The fair market value of TFFR assets increased from $1,530 million to $1,720 million. Total contributions were $65.6 million, and total distributions were $96.0 million, showing a net external cash flow of -$30.4 million, or -1.8% of market value of assets. Mr. Conradi assured the Board that this level of negative internal cash flow should not be a problem. The return on market for fiscal year 2006 was 14.6%, and for the last ten years was 8.3%. For fiscal year 2006, the smoothed actuarial value of assets was $1,564 million, and the actuarial return was 8.5%. The actuarial value is 91% of fair market value. TFFR has $156.3 million in deferred gains that have not yet been recognized.

TFFR's UAAL increased from $495.5 million to $509.9 million. Based on actuarial value, TFFR's funded ratio increased from 74.8% to 75.4%. However, based on market value, TFFR's funded ratio is 83.0%, up from 77.9% last year. Presently, the UAAL is 130.7% of covered payroll, compared to 128.2% last year. The negative margin increased from -4.37% to -4.54% and the funding period remains infinite. TFFR's employer contribution rate was 63.9% of the GASB Annual Required Contribution (ARC). This shortfall is reported in TFFR's Comprehensive Annual Financial Report (CAFR).

Short term projections show increasing funded ratios, decreasing UAAL, and decreasing negative margin. However, long-term projections show the UAAL will slowly increase unless investment performance is greater than expected.

Projections do show, however, that the Fund will be able to pay all promised benefits for at least the next 30 years.

Mr. Conradi explained that almost all statewide pension systems were damaged by what happened in the investment markets in the first years of this decade, many worse than TFFR. He described the major factors contributing to TFFR's present actuarial condition. 1) investment market losses in fiscal years 2001, 2002, and 2003 which resulted in actuarial asset losses of $316.8 million over the last six years; 2) actuarial assumption changes which resulted in a $63.3 million increase in the UAAL; 3) the 2001 benefit improvements increasing the formula multiplier and providing a retiree cost-of-living increase which resulted in a $93.9 million increase in UAAL; and 4) other factors which include liability losses and the effect of negative amortization which resulted in a $56.5 million increase in UAAL.

A copy of the 2006 valuation report and presentation is on file at the Retirement and Investment Office (RIO).

After discussion and questions relating to the 2006 actuarial valuation report,

TREASURER SCHMIDT MOVED AND MR. CORNEIL SECONDED TO ACCEPT THE 2006 VALUATION REPORT AS PRESENTED.

AYES: TREASURER SCHMIDT, MRS. FRANZ, DR. LATIMER, DR. SANSTEAD, MR. GESSNER, MR. CORNEIL, AND PRESIDENT SANFORD
NAYS: NONE
MOTION CARRIED

<u>ACTUARIAL AUDIT RESPONSE</u>:

Mr. Conradi presented GRS' written response to the suggestions included in the actuarial audit report conducted by Buck Consultants. In general, GRS is pleased with the results since the audit report confirms that the GRS actuarial reports fairly present the position of the fund; the numbers are being calculated correctly; important benefits or provisions are not being overlooked; and the assumptions being used are reasonable and appropriate.

The Buck audit report included a number of suggestions to enhance the actuarial valuation process and reports of the TFFR actuary. Mr. Conradi stated that GRS agreed with a number of the suggestions, and have or will comply as indicated in their written response. In some of the other cases, GRS explained why they don't believe a change in procedures is needed, or the suggestions were for the RIO staff.

Buck's main recommendation was to change the funding method from the modified entry age normal cost method to the conventional entry age normal cost method. Mr. Conradi explained that GRS believes that their method is in compliance with GASB 25, and is an appropriate method for the TFFR plan. However, if the Board wants GRS to change the actuarial method, GRS will comply. Changing the methodology would not change the actuarial present value of future benefits; it would only change how the amount is allocated between future normal costs and the actuarial accrued liability.

The Board discussed changing the actuarial methodology. Mrs. Kopp stated that she asked RIO's external auditors, Brady Martz, for an opinion on whether the actuarial method being used is in compliance with GASB 25. Brady Martz indicated that they are unable to provide a formal opinion since the question deals with actuarial standards, not financial standards. They recommended pursuing the question with the Actuarial Standards Board or GASB. Mr. Conradi indicated that GRS would do some initial research on the process to request an opinion from the Actuarial Standards Board, and would get back to the Board at a later date.

The Board also discussed Buck's recommendation to expand the summary of actuarial gains and losses to include all sources of decremental changes. Since a full gain-loss analysis is not a standard part of an actuarial valuation, adding it would increase fees. The Board decided that they did not want to add a full gain-loss analysis to the annual valuation reports at this time.

In general, the Board concurred with the GRS responses to the actuarial audit, and directed no additional changes to actuarial procedures or methods at this time. The Board will reconsider the recommendation relating to GRS' use of the aggregate variation of entry age normal method when they receive additional information from GRS.

A copy of the Buck actuarial audit report and the GRS November 8, 2006 written response is on file at the Retirement and Investment Office.

LEGISLATIVE UPDATE:

Mrs. Kopp updated the Board on the Employee Benefits Programs Committee (EBPC) meeting held on October 24, 2006. She provided GRS' actuarial and technical comments and her testimony that was presented to the Committee. The EBPC gave the following recommendations on the bill drafts impacting TFFR and the State Investment Board (SIB).

Bill No.	Sponsor	EBPC Recommendation
Bill No. 67	Rep. Klein Modifies retiree reemployment provisions	Bill Withdrawn

Bill No. 68	TFFR Board	Favorable recommendation	
	Increases employer contributions and makes benefit changes for new hires		
Bill No. 73	CTE	No recommendation	
	Allows CTE employees to transfer from TFFR to PERS		
Bill No. 82	SIB	Favorable recommendation	
	Authorizes Investment Officer to sign investment contracts		
Bill No. 84	Rep. Klein	Bill Withdrawn	
	Increases employer and employee contributions		

After discussion,

MR. CORNEIL MOVED AND DR. SANSTEAD SECONDED TO FILE BILL NO. 68 WITH THE LEGISLATIVE COUNCIL FOR THE 2007 LEGISLATIVE ASSEMBLY. A ROLL CALL VOTE WAS TAKEN AS FOLLOWS:

AYES: MRS. FRANZ, TREASURER SCHMIDT, PRESIDENT SANFORD, DR. LATIMER, MR. GESSNER, MR. CORNEIL, AND DR. SANSTEAD
NAYS: NONE

MOTION CARRIED

The Board recessed at 3:15 pm and reconvened at 3:30 pm.

Mrs. Kopp stated the Governor's Commission on Education Improvement released its draft report to overhaul the state's school finance system. Administrators, school boards, and the public have provided feedback. The Board discussed the potential impact the recommendations contained in the plan could have on distribution of the state's education funds through a new funding formula and how this could affect the TFFR legislative proposal.

The Board congratulated ND Congressman Earl Pomeroy on being selected by the National Council on Teacher Retirement (NCTR) as their first recipient of the NCTR Award for Outstanding Service to Public Pensions. On behalf of NCTR, Mrs. Kopp presented the award to Congressman Pomeroy in Bismarck which was taped and then shown to attendees at the 2006 NCTR Conference in Austin, Texas.

INVESTMENT UPDATE:

Mr. Steve Cochrane, Executive Director, stated TFFR's estimated investment return year-to-date through November 15, 2006 is 7.56%. He then reviewed the agenda for the November 17, 2006, SIB Board meeting.

TFFR GOALS AND INVESTMENT POLICY STATEMENT:

Mrs. Kopp briefly reviewed the TFFR goals and investment policy statement which were approved at the September 21, 2006 meeting. Board members confirmed that the revised goals as presented reflect the Board's intent.

MEMBER AND EMPLOYER CONVENTIONS UDPATE:

Mrs. Shelly Schumacher, Retirement Programs Supervisor, updated the Board on the annual conventions TFFR members, employers, and staff participates in each year.

Mrs. Kopp commented on the NDRTA and NDCEL Conventions. She stated that at their annual conference, NDCEL passed a resolution in support of TFFR Bill No. 68 to ensure the TFFR funding level and overall financial health without impairing legally protected contractual obligations. She also stated that NDRTA passed a resolution to encourage legislation to provide for postretirement annuity increases for all retirees, provide for the viability and sustainability of TFFR, and to maintain the existing TFFR defined benefit plan for North Dakota educators.

President Sanford announced that Joe Westby, NDEA Executive Director, is retiring December 31, 2006. President Sanford acknowledged Mr. Westby's efforts and strong support for the TFFR plan and improvement of benefits for North Dakota's teachers. The Board directed Mrs. Kopp to present a resolution for Mr. Westby thanking him for his contributions to TFFR, and to include the resolution in the November 16, 2006, TFFR Board meeting minutes.

ND TEACHERS' FUND FOR RETIREMENT BOARD
RESOLUTION IN APPRECIATION OF
JOSEPH A. WESTBY

WHEREAS, Joseph A. Westby has devoted his entire career to North Dakota public education by serving as Executive Director of the North Dakota Education Association for 16 years, NDEA UniServ Director for 10 years, and ND public school teacher for 19 years, until his retirement in 2006; and

WHEREAS, Joe represented NDEA and all North Dakota public school teachers with honor through his active involvement with the TFFR Board, State Investment Board, and numerous other education and retirement related associations; and

WHEREAS, Joe has been a strong supporter of the TFFR defined benefit pension plan and championed the improvement of retirement benefits for active and retired TFFR members while maintaining the actuarial soundness of the Plan; and

WHEREAS, Joe has been an outstanding and dedicated public education advocate who has demonstrated positive leadership, tremendous energy, limitless creativity, and personal dedication in his many years of public service, and who has been an inspiration to all those who have had the pleasure to work with him; now therefore, be it

RESOLVED, that the TFFR Board express its sincere appreciation to Joe for his contributions, dedication and unwavering support of the teachers, students, and citizens of North Dakota; and be it further

RESOLVED, that the TFFR Board extend its best wishes to Joe, and his wife, Rita, for a long and happy retirement; and be it further

RESOLVED, that a copy of this Resolution be presented to Joseph A. Westby and printed in the official TFFR Board minutes, on behalf of the many lives he has so positively touched.

ND Teachers' Fund for Retirement Board of Trustees
Dr. Mark Sanford, President
Mike Gessner, Vice President
Kim Franz, Trustee
Clarence Corneil, Trustee
Lowell Latimer, Trustee
Kelly Schmidt, State Treasurer
Wayne Sanstead, State Superintendent

Dated this 16th day of November, 2006

CONSENT AGENDA:

TREASURER SCHMIDT MOVED AND MR. GESSNER SECONDED TO APPROVE THE CONSENT AGENDA WHICH INCLUDES ONE DISABILITY APPLICATION AND ONE QDRO.

AYES: PRESIDENT SANFORD, MRS. FRANZ, DR. LATIMER, DR.SANSTEAD, MR. GESSNER, MR. CORNEIL, AND TREASURER SCHMIDT
NAYS: NONE
MOTION CARRIED

EXECUTIVE SESSION:

President Sanford advised the Board that it would go into Executive Session to discuss confidential retirement information relating to overpayment of retirement benefits to a deceased member. President Sanford reminded the Board that any Executive Session discussion must be limited to the death overpayment issue only. Under North Dakota Century Code (NDCC) 44-04-19.1 (2), the Board has the legal authority to meet in Executive Session for the purpose of discussing confidential member information.

EXECUTIVE SESSION

Executive Session attendees included: Treasurer Schmidt, Mrs. Franz, President Sanford, Dr. Latimer, Mr. Corneil, Mr. Gessner, Dr. Sanstead, Mr. Webb, and RIO staff.

Executive Session began at 4:10 p.m. and ended at 4:17 p.m.

OPEN SESSION

TREASURER SCHMIDT MOVED AND DR. SANSTEAD SECONDED TO ACCEPT THE ATTORNEY GENERAL'S RECOMMENDATION AND WRITE OFF THE DEATH OVERPAYMENT.

AYES: DR. SANSTEAD, MRS. FRANZ, MR. CORNEIL, TREASURER SCHMIDT, MR. GESSNER, DR. LATIMER, AND PRESIDENT SANFORD
NAYS: NONE
MOTION CARRIED

OTHER BUSINESS:

Mr. Corneil brought up the issue of Code of Conduct practices in light of ethics violations that have happened in other pension systems around the country. Mrs. Kopp reminded the Board of the Code of Conduct policy adopted by the TFFR Board in 2005 which was modeled after the SIB policy adopted in 1997. Treasurer Schmidt indicated she was working with the Attorney General's Office on a draft policy and would provide additional information at a later date. No further action was requested at this time.

ADJOURNMENT:

With no further business to come before the Board, President Sanford adjourned the meeting at 4:30 p.m.

Respectfully Submitted:

Mark Sanford

Dr. Mark Sanford, President
Teachers' Fund for Retirement Board

Bonnie Heit

Bonnie Heit
Reporting Secretary